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SENSITIVE
SIPDIS

STATE FOR EAP/MLS, EAP/PD, IO, EEB/IFD/OMA--FREUDENWALD,
STATE PLEASE PASS TO USTR--BISBEE
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TREASURY FOR CHUN

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SUBJECT: CAMBODIA: INVESTMENT, TEMPLE CONTROVERSY, DEBT,
AND OVERLAPPING CLAIMS HEADLINE BUSINESS DELEGATION MEETINGS

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INTERNET.

11. (SBU) SUMMARY: Riding on a wave of increased U.S.
investor interest in Cambodia, 17 corporate leaders
representing nine major companies visited Cambodia May 1-3 as
part of a U.S.-ASEAN Business Council delegation. Prime
Minister Hun Sen used his two-hour-long meeting with the
group to press for progress on two high-priority foreign
policy issues: the pending inscription of the Preah Vihear
temple on the UNESCO World Heritage list and Cambodia's
bilateral debt with the U.S. Delegation members and the
embassy believe that successful resolution of the Preah
Vihear issue could open the door to a resolution of the
overlapping claims area in the Gulf of Thailand. End Summary.

Preah Vihear Dominates Meeting with PM Hun Sen

12. (SBU) Opening the meeting with the Prime Minister,
US-ASEAN Business Council (US-ABC) President Matt Daley noted
how pleased he was to have a larger number of businesses
joining each successive business mission to Cambodia.
Boeing SE Asia President and former U.S. Ambassador to
Thailand Skip Boyce remarked on the impressive economic
growth he had witnessed in Cambodia over the past ten years,
while Boeing Asia Sales Director Chris Flint invited the PM
to discuss separately ways that Boeing could contribute to
civil aviation development in Cambodia. Liam Benham, Ford
VP, noted that his company was operating the first car
manufacturing facility in Cambodia--a plant modifying pick up
trucks for use as U.S. military ambulances in Iraq. As an
aside, Daley mentioned that the business delegation had just
come from meetings in Thailand and relayed a message from
Thai Foreign Minister Noppadon Pattana that Thailand does
not/not oppose the inscription of the Preah Vihear temple on
the UNESCO World Heritage list, but would like a joint
Thai-Cambodian management plan for a 4.7 square kilometer
area adjacent to the main temple. Daley mentioned that the
US-ABC took no position on the dispute.

13. (SBU) Focusing his attention on Preah Vihear, the PM
asserted that "In Preah Vihear, there are no overlapping
claims areas--only in the sea." (Comment: Clearly, to the

Cambodians, the 1962 ICJ decision awarded the 4.7 square kilometer area to Cambodia and Cambodia currently occupies this territory. Therefore, it is "not overlapping" and a joint management plan is not politically or legally feasible. End Comment.) The Thais are "going one step forward and two steps back" on the Preah Vihear issue, Hun Sen said. He recalled that he and Thai PM Samak had discussed Preah Vihear in a side meeting during the March Greater Mekong Summit in Laos. Hun Sen said he had emphasized that the proposed inscription covered the main temple site (the area awarded to Cambodia by the International Court of Justice)--implying that because the proposal covers only Cambodian territory, there is no need for a joint management plan.

¶4. (SBU) The Prime Minister painted himself as having the moral high ground in the Preah Vihear dispute. He also expressed frustration with recent statements from Thai defense officials claiming that Cambodia had deployed troops near Preah Vihear. He viewed these inaccurate assertions as Thailand "creating problems." Cambodia did not respond to this provocation, instead waiting patiently until the Thai government retracted the statement. Finally, Hun Sen urged a swift resolution of the issue, saying that further delay endangers the site, which is "the heritage of humankind."

Hun Sen Reiterates "Debt for Development" Approach

¶5. (SBU) Hun Sen appealed for help from the US-ABC in resolving its bilateral debt with the U.S. The debt is a state legacy, the PM said, and Cambodia will repay it. However, Cambodia would like flexibility in how it repays the debt. Specifically, he requested that the U.S. consider that the interest rate be set at 3% for the amount outstanding

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since the original loans were made in the 1970s, with an interest rate of 1% during the repayment period. Furthermore, Cambodia would like the repaid monies to be used for development, similar to the use of Vietnamese loan payments for education programs there. He noted that he will have a difficult time selling the Cambodian people on repaying this debt, which was borrowed by the Lon Nol government that deposed the still-revered former king, Sihanouk, father of the sitting king, Sihamoni.

¶6. (SBU) The Ambassador stressed that all countries had to repay their debts, even when the loans were taken out by a different government. The bottom line for the U.S. administration, he stated, is that Cambodia must agree to debt repayment terms first, before the possibility of using repaid funds for development could even be considered. US-ABC staffer Frances Zwenig then noted that the business council had been working with Congress to secure support for a debt recycling deal for Cambodia which could be discussed only after/after Cambodia agreed to terms with the Executive Branch. Senators Kerry, McCain, Biden, Lugar, and Webb were particularly receptive, she noted.

PM's "Checkerboard" Proposal for Overlapping Maritime Claims

¶7. (SBU) Speaking about the overlapping claims area (OCA) in the Gulf of Thailand, the PM wanted to consider this issue separately from the contentious Preah Vihear question--an approach that Thailand accepted years ago, he said. The Thais wanted to divide the OCA into strips running north to south with Cambodia and Thailand sharing different percentages of petroleum revenues in each strip. Hun Sen suggested instead that the area be divided into a checkerboard pattern with each country having sole control of its assigned blocks. (Comment: The PM asserted that his plan would be simpler than the shared profits and decisionmaking suggested by Thailand, but we suspect that his real motivation is to present a system likely to be closer to a 50-50 split of petroleum revenues than other proposals

being discussed. End Comment.)

Food Prices Hurting Even Cambodia's Stable Economy

18. (U) Meeting with the delegation, World Bank economist Stephane Guimbert said while many impediments to doing business such as corruption remained largely unchanged, the economy has grown at high annual rates because of investors' perceptions of increased political stability and investment security. He added that the government is committed to managing the macroeconomy well. Despite shocks in oil price, weather, and the garment sector, the country still managed to sustain double-digit growth and single-digit inflation. However, the latest shock--in food prices--has broken this string of successes, with inflation jumping to double digits and economic growth likely to slow to single digits. Guimbert suggested that the idea of a "rice cartel" proposed more than a year ago by Prime Minister Hun Sen in response to low rice prices, and raised again recently by Thai Prime Minister Samak in response to high rice prices, may be useful to help coordinate and stabilize rice prices.

Comment

19. (SBU) While a few major U.S. companies have already begun operations in the Cambodian market, this delegation reflects the state of play more typical for American corporations: having just a toehold or no presence at all in the Cambodian market and just beginning to consider expanding into Cambodia in a serious way. As the fourth business delegation to come to Cambodia in just over a year, with no previous delegations in the embassy's collective memory in the decades before, this group also reflected the quickly growing investor interest in Cambodia. Participants walked away impressed by the availability and level of interest displayed by the Cambodian officials, particularly during the two hour meeting

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with Prime Minister Hun Sen, which Deputy Prime Minister Sok An, Minister of Economics and Finance Keat Chhon, and other senior officials also attended.

10. (SBU) The meetings also served as a reality check that intense political debates lie behind some key economic issues. On the Preah Vihear issue, it seems likely that--despite Thai and Cambodian statements to the contrary--the inscription of the temple is linked to resolving the maritime claims dispute, at least in the minds of senior Thai and Cambodian government leaders. Both sides are looking at the issues from political, cultural, and economic perspectives. It is in the interest of both countries to find a way to settle these differences; the challenge for the USG is to find a way to push both countries towards an acceptable solution. Post agrees with the observation by US-ABC reps Daley and Zwenig that inscribing Preah Vihear on the UNESCO World Heritage list, if handled correctly, actually could open opportunities for the two countries to work more closely both on cultural issues and the more lucrative issue of the overlapping claims in the Gulf of Thailand. Perhaps the upcoming visit to Phnom Penh by Thai MFA official Weerasak Futrakal to discuss Preah Vihear will allow the two parties to find a way to move ahead on this issue.

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